

# ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

MAY 2003

## HIGHLIGHTS

### **Maryland Ranks Well**

In 2002 Maryland was 4<sup>th</sup> among the 50 states with a per capita personal income of \$36,298, exceeding the national average by more than 17 percent (see *Focus* article).

### **Maryland Holds the Line**

While the U.S. economy shed 0.2 percent of all jobs, Maryland held the line. A zero growth rate ranked the state 25th in the nation in job growth.

### **U.S. Economy Remains Weak**

U.S. industrial production fell for the second straight month in April, and the factory capacity utilization rate fell to 72.5 – the lowest in nearly 20 years (see *U.S. Economy*).

### **Good News on Inflation**

U.S. wholesale prices fell 1.9 percent — the largest drop in over 50 years. Excluding food and energy prices, core inflation at the wholesale level fell 0.9 percent — the largest drop in a decade.

## Snapshot Maryland

March data show that the economy was weighed down by war in Iraq and by uncertainties about the future of the economy. Consumers remained uncertain about the job market and businesses remained uncertain about the prognosis of the economy. Claims for unemployment insurance — new as well as continuing — remained very high, while businesses remained reluctant to raise investments in uncertain times. Industrial production fell for a second straight month, and capacity utilization rates hit record lows.

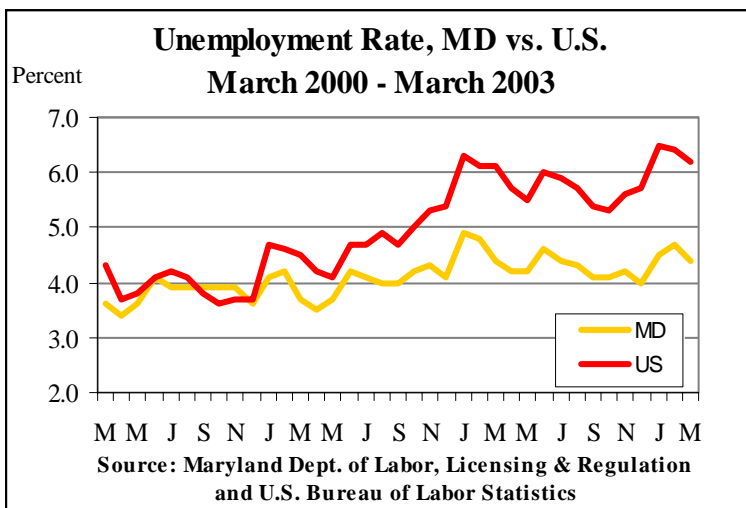
The good news is that the war ended quickly, with little damage to oil assets. While the build-up to the war caused oil prices to rise, the end to the war brought those prices down sharply. Consumers received quick relief as prices at the pump fell rapidly. And prices are continuing to decline. U.S. wholesale prices fell 1.9 percent — the largest drop in over 50 years. The core inflation rate at the wholesale level, excluding food and energy prices, fell 0.9 percent, the largest drop in a decade.

The SARS epidemic has had a significant negative impact on international travel, trade and commerce. The crisis has lowered economic growth mostly in China and the Far East. International travel to and from the East has fallen precipitously, with added strain on international carriers. The entire airline industry is now fighting a slowdown as great as that experienced following 9/11.

### **Labor Market Trends, March 2003**

(Percent Change, March 2002 - March 2003)

	MD	U.S.
Growth of Civilian Labor Force	1.2	1.0
Employment by Place of Residence	1.2	0.9
Job Growth (by place of work)	0.0	-0.2
Temporary Cash Assistance – Caseload	-3.0	–
Change in Initial UI Claims	6.4	2.8
Help-wanted Counts	-17.2	–
Unemployment Rate (current month, %)	4.4	6.2



What this means for a state like Maryland is that business, entertainment, travel and tourism will take place closer to home. Given falling gasoline prices, more tourists are likely to flock to destinations such as Ocean City, Baltimore, Washington and Annapolis rather than to more distant venues, especially those that entail air travel. As the economy

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# Jobs and Sectors

Despite an overall job growth of zero in March, several sectors did register growth. Notably, education and health services added 9,200 jobs from March 2002 to March 2003. Job gains were also significant in other services (3,700),

## Percent Change in Jobs March 2002 - March 2003

	MD	U.S.
Construction and Mining	-3.2	—
Manufacturing	-2.9	—
Trade, Transportation, Utilities	-1.1	—
Information	-6.0	—
Financial Activities	-0.3	—
Professional and Business Services	0.5	—
Education and Health Services	2.8	—
Leisure and Hospitality	0.1	—
Other Services	3.3	—
Government	0.6	—
Total	0.0	-0.2

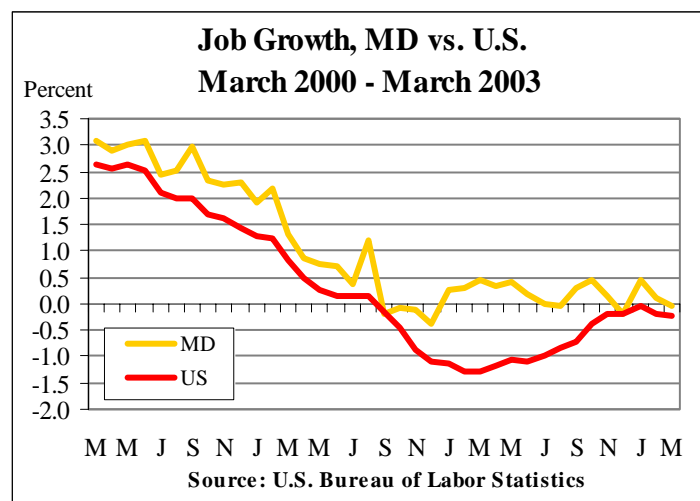
government (2,600) and professional and business services (1,700). In job growth rates, other services led all sectors (up 3.3%), followed by educational and health services (up 2.8%), government (up 0.6%) and professional and business services (up 0.5%).

Over the past year, job losses were significant in information services (down 6.0% or 3,300 jobs), construction and mining (down 3.2% or 5,300 jobs), manufacturing (down 2.9% or 4,600 jobs), and trade, transportation and utilities (down 1.1% or 4,900 jobs).

For over a year, the housing sector has been one of the strongest drivers of the economy. Home sales, both new and existing, have been rising while mortgage interest rates have declined to historic lows. Low mortgage rates also spurred

homeowners to refinance existing mortgages. Rising home values and low rates have enabled many homeowners to obtain low-cost home equity loans. The newfound cash has, in turn, fueled home improvement, vacations, educational expenditures, automobile purchases and overall consumer spending. Although mortgage rates remain low, they are predicted to rise beginning in the second half of the year. Also, economic factors indicate that the increase in home prices are likely to slow dramatically in the coming months.

In March, existing home sales rose 4.7 percent in Maryland and 2.1 percent nationwide. This growth is significant, since the weather in March 2002 was better than in March 2003, and a slight drop in growth was more likely. Permits for new residential units fell 19.5 percent in Maryland from March 2002 to March 2003. New auto registrations fell 4.4 percent in Maryland and 3.3 percent in the U.S. during the past year.



Air travel and air cargo movement fell between March 2002 and March 2003, due primarily to concerns over the economy and the impending war in Iraq. Cargo volume at the Balti-

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## Other Economic Indicators

- Several Maryland industry sectors had significant job growth during the past year, despite the weak economy. The strongest job growth occurred in education and health services, which added 9,200 jobs.
- Overall, the state experienced a net loss of 1,000 jobs during the past year — a growth rate of zero percent.
- The U.S. economy registered a job growth rate of -0.2

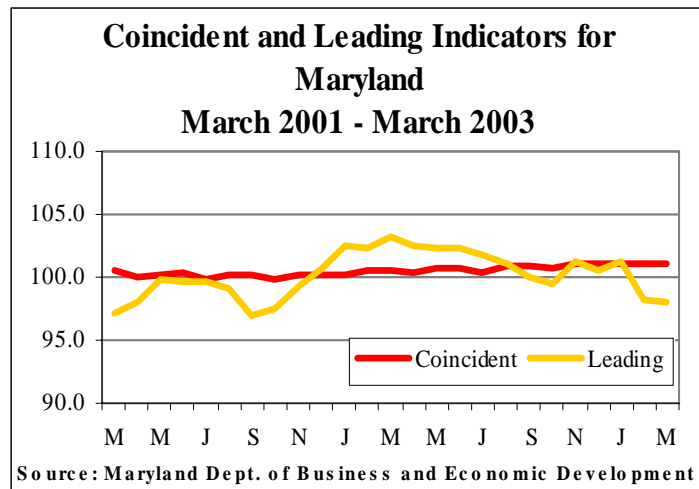
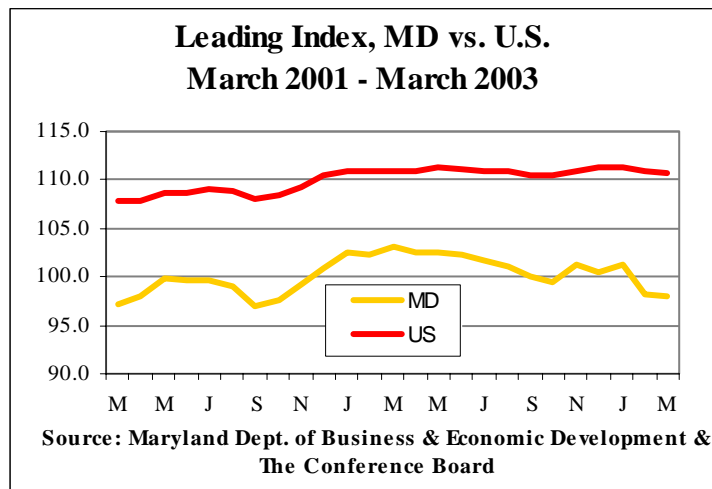
percent. Only 22 states and the District of Columbia had net job gains during the March 2002 to March 2003 period.

- The state ranked 25<sup>th</sup> in job growth in March — up from 27<sup>th</sup> in February and ahead of most of its neighboring states, with the exception of the District of Columbia
  - Claims for unemployment insurance remain high and con-
- (continued on page 3)

# Maryland Leading and Coincident Indices

The *Maryland index of leading indicators* edged lower in March — down to 97.9 from 98.1 in the previous month. The leading index was also 5.1 percent below the level of a year ago. Only three of the seven Maryland components provided a positive impact in March — help-wanted counts, BWI passengers, and the stock index. All of the U.S. components contributed to a negative impact. The Maryland indicator declined for the second consecutive month, which suggests weakness in the outlook for the state's economy. But the index has been volatile and, thus, does not provide a clear signal on the state's economy. The U.S. leading index was down by 0.2 percent in March. The indicator was also down 0.5 percent from a year ago. The U.S. index has been essentially flat over the past six months.

The revised *coincident index* stood at 101.1 in March, virtually unchanged from the previous month. The indicator was up 0.5 percent from a year ago. The rate of growth in the coincident indicator (year-to-year change) has declined since the end of last year. The volatility in the Maryland leading indicator suggests that only modest gains in the coincident index may be expected for the near term. In March, the U.S. coincident indicator was also unchanged from the previous month, but was up 0.4 percent from the same period a year ago. The U.S. index has been relatively flat over the past few months. The increases from six months ago have slowed and have turned down more recently. U.S. economic activity remains weak. The labor market is still struggling to rebound, as employers remain hesitant to expand payrolls.



## Economic Indicators (continued from page 2)

continue to be a reason for concern. Initial claims for UI rose 6.4 percent from March 2002 to March 2003. Nationally, both initial and continuing claims have remained high and show no immediate signs of reversal.

- In another sign of a weak labor market, the *Baltimore Sun's* help-wanted counts fell 17 percent in March.
- Average weekly hours in manufacturing stood at 38.4 in March, up slightly from the previous month, but well below the 39.9 hours clocked in March 2002. Average weekly earnings fell 5.0 percent.
- BWI Airport reported an 11 percent drop in cargo volume and a 5.4 percent drop in passenger volume from March 2002 to March 2003.
- Over the past year, the Maryland stock index registered

an 18 percent drop, compared with a 26 percent drop in the national index.

- The number of new residential permits issued in Maryland fell 19.5 percent in March, but rose 2.8 percent in the U.S.
- Existing home sales rose 4.7 percent in Maryland between March 2002 and March 2003. Nationally, existing home sales rose 2.1 percent during the same period.
- New auto registrations in Maryland fell 4.4 percent in March, and fell 3.3 percent in the nation.
- In the tourism sector, hotel occupancy rates rose strongly from February to March, but were down slightly from last year. Visitor volume and tourism-related tax revenues fell significantly in March.

## Snapshot Maryland (continued from page 1)

improves towards the end of the year, growth in these sectors will likely resume.

March job data show that despite zero growth, Maryland ranked 25<sup>th</sup> among the states and the District of Columbia. In other words, the nation's economic fortunes as a whole worsened more than Maryland's, hence the state's ranking improved from 27<sup>th</sup> in February to 25<sup>th</sup> in March.

Maryland ranks 25<sup>th</sup> in job growth in the nation — among the best in the mid-Atlantic. The job growth rankings for neighboring states in March were: the District of Columbia, 10<sup>th</sup>; West Virginia, 31<sup>st</sup>; Pennsylvania, 36<sup>th</sup>; Virginia, 37<sup>th</sup>; and Delaware, 44<sup>th</sup>.

Maryland's labor force grew 1.2 percent in March, down slightly from the 1.4 percent rate for the previous month. Employment by place of residence also grew 1.2 percent. Hence, the state's unemployment rate remained unchanged from last year at 4.4 percent. The U.S. labor force grew 1.0 percent and employment grew 0.9 percent over the year, resulting in a slight increase in the nation's unemployment rate — from 6.1 to 6.2 percent.

Initial claims for unemployment insurance (UI) increased 6.4 percent in Maryland and increased 2.8 percent in the U.S. over the past year. Temporary Cash Assistance (TCA)

### Maryland vs. U.S. Job Growth Rate (Percent Change, Year Ago)

Month	MD	US
Mar-02	0.5	-1.3
Apr-02	0.3	-1.2
May-02	0.4	-1.1
Jun-02	0.2	-1.1
Jul-02	0.0	-1.0
Aug-02	0.0	-0.8
Sep-02	0.3	-0.7
Oct-02	0.5	-0.4
Nov-02	0.1	-0.2
Dec-02	-0.2	-0.2
Jan-03	0.5	0.0
Feb-03	0.1	-0.2
Mar-03	0.0	-0.2

caseload fell 3.0 percent in March; however, the Baltimore Sun's help-wanted counts fell 17 percent over the year.

## Jobs and Sectors (continued from page 2)

more/Washington International Airport fell nearly 11 percent, while passenger volume fell 5.4 percent.

The same uncertainties affected the hospitality and tourism sectors. Hotel/motel occupancy rates fell 1.3 percent over the year, while welcome center visitor volume fell 16 percent. With declining gasoline prices and the possibility that people are likely to limit travel to destinations closer to home

during summer travel months, this sector should show modest growth. Close-in tourist destinations in Maryland — such as Ocean City, Baltimore and Annapolis — should benefit from current economic conditions.

### *Seasonal Adjustments to Unemployment Rates*

Maryland's unemployment rate fell to 4.4 percent in March from 4.7 percent in February, but remained unchanged from the level of a year ago. The U.S. unemployment rate rose slightly from a year ago. Both seasonally adjusted (SA) and not seasonally adjusted (NSA) data sets show that Maryland's unemployment rate still remains significantly below the national average.

### Unemployment Rates (Percent)

	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
Mar 2003	4.4	6.2	4.5	5.8
Feb 2003	4.7	6.4	4.2	5.8
Mar 2002	4.4	6.1	4.5	5.7

Source: U.S. Bureau of Labor Statistics

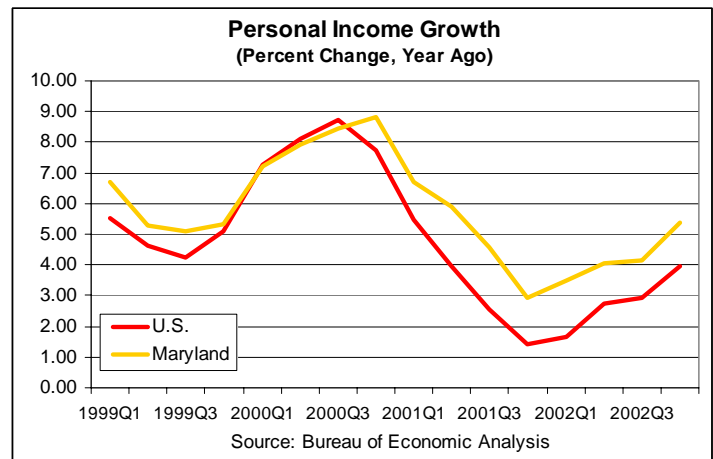
## FOCUS: Maryland's Personal Income in 2002

Preliminary data from the Bureau of Economic Analysis show that in 2002 Maryland had the 4<sup>th</sup> highest per capita personal income among the 50 states (\$36,298). The state's per capita income was 17 percent above the national average (\$30,941). Only Connecticut, New Jersey and Massachusetts, as well as the District of Columbia, had a higher per capita income. Maryland's per capita personal income grew 2.9 percent in 2002 — the 18<sup>th</sup> highest growth rate among the states. This followed a more robust 3.6 percent gain in 2001. For the nation as a whole, per capita income grew only 1.7 percent in 2002 — slowing from a 2.2 percent rate in 2001.

Total personal income growth slowed in 2002. The U.S. rate fell to 2.8 percent in 2002 from 3.3 percent in the previous year. Maryland's total personal income growth rate fell from 5.0 percent in 2001 to 4.3 percent in 2002. Despite the slower growth rate, the state ranked 8<sup>th</sup> in the nation in total personal income growth.

Quarterly data indicate that the rate of growth in personal income is improving. The nation's personal income rose 5.5 percent in the 1<sup>st</sup> quarter of 2001, but dropped to 1.4 percent by the 4<sup>th</sup> quarter. The growth rate improved to about 4.0 percent by the 4<sup>th</sup> quarter of 2002. In Maryland, personal income rose by 6.7 percent in the 1<sup>st</sup> quarter of 2001, but fell to 3.0 percent by the 4<sup>th</sup> quarter. The growth rate improved to 5.4 percent by the 4<sup>th</sup> quarter of 2002.

By industry, the government and services sectors were the major contributors to the growth in earnings for the nation, rising by 6.3 percent and 2.5 percent in 2002, respectively. Manufacturing was the main drag on income growth, declining by 2.7 percent. Within the manufacturing sector, earnings in durable goods fell by 4.1 percent. Maryland displayed a pattern similar to the nation's — with the government and services sectors making significant contributions, up 7.9 percent and 5.2 percent, respectively. The two sectors that had significant negative contributions to income growth in Maryland were manufacturing (-1.4%), and transportation, communications and utilities (-2.9%).



## U.S. Economy - Factories and Inflation

U.S. industrial production — the output of manufacturing plants, mines and utilities — fell by 0.5 percent in April, the same as in March, while overall capacity utilization fell to 74.4 percent from 74.8 percent. The factory sector, which has been hard hit by the slumping economy, shows lingering weaknesses. Factory capacity utilization rates fell to 72.5 percent in April 2003, the lowest reading since May 1983. Overall factory output fell 0.6 percent in April, the third straight decline and the biggest monthly drop since December 2002.

Factory output makes up more than four-fifths of overall industrial output. The primary reason for the slumping factory output was declining auto production. Automobile assembly rates fell to 11.55 million units annually in April from 11.90 million units in March. Total automobile and parts production was down by 2.0 percent.

There is a silver lining amidst this otherwise gloomy economic data. Output of high-tech equipment, such as computers, semiconductors and communications gear, grew a modest 1.0 percent between March and April and was up a strong 9.3 percent compared to April 2002 levels.

In April, wholesale prices fell 1.9 percent, the biggest decline in over 50 years. The decline partly reflected falling oil prices — a trend that is expected to continue into early summer. Even excluding volatile food and energy prices, wholesale prices dropped 0.9 percent, the biggest drop in a decade.

## Selected Monthly Economic Indicators

	Maryland					U.S.				
	Mar	Feb	Percent Change	Mar	Percent Change	Mar	Feb	Percent Change	Mar	Percent Change
Selected Indicators	2003	2003	From Last Month	2002	From Last Year	2003	2003	From Last Month	2002	From Last Year
<b>Labor Market</b>										
Labor Force (U.S. in Thousands)	2,908,543	2,900,990	0.3	2,874,476	1.2	145,801	145,693	0.1	144,334	1.0
Employment (U.S. in Thousands)	2,779,554	2,765,744	0.5	2,747,335	1.2	136,783	136,433	0.3	135,558	0.9
Unemployment Rate	4.4	4.7	-6.4	4.4	0.0	6.2	6.4	-3.1	6.1	1.6
Sun Help-Wanted Counts, Baltimore MSA	13,893	11,730	18.4	16,783	-17.2					
Initial Claims for Unemployment Insurance	21,186	23,788	-10.9	19,903	6.4	1,626,898	1,660,776	-2.0	1,582,279	2.8
TCA Caseload	29,055	28,782	0.9	29,944	-3.0					
TCA Cases Closed	2,590	2,558	1.3	2,696	-3.9					
<b>Jobs and Sectors<sup>1</sup> (Jobs in Thousands)</b>										
Total Non-Agricultural Employment	2,461.2	2,439.4	0.9	2,462.2	0.0	129,564	129,080	0.4	129,875	-0.2
Construction & Mining	158.7	158.2	0.3	164.0	-3.2					
Manufacturing	154.2	153.9	0.2	158.8	-2.9					
Trade, Transportation, Utilities	455.2	451.7	0.8	460.1	-1.1					
Information	51.5	51.0	1.0	54.8	-6.0					
Financial Activities	149.0	149.1	-0.1	149.4	-0.3					
Professional & Business Services	359.3	354.5	1.4	357.6	0.5					
Education & Health Services	339.4	337.9	0.4	330.2	2.8					
Leisure & Hospitality	202.9	196.6	3.2	202.6	0.1					
Other Services	116.5	115.5	0.9	112.8	3.3					
Government	474.5	471.0	0.7	471.9	0.6					
Average Weekly Earnings (\$)	577.54	588.66	-1.9	608.08	-5.0					
Average Weekly Hours	38.4	38.2	0.5	39.9	-3.8					
<b>Business and Consumer Markets</b>										
BWI Cargo (Metric Tons)	18,362	17,047	7.7	20,538	-10.6					
BWI Passengers (Millions)	1.57	1.17	34.7	1.66	-5.4					
Electric Meters Installed, Commercial	131	96	36.5	168	-22.0					
Electric Meters Installed, Residential	1,167	560	108.4	1,024	14.0					
Electricity Sales, Commercial (Millions of kWh)	1.56	1.47	6.0	1.72	-9.4					
Electricity Sales, Residential (Millions of kWh)	1.12	1.22	-8.8	0.97	14.5					
Existing Home Sales (U.S. in Thousands)	6,644	4,934	34.7	6,348	4.7	444	346	28.3	435	2.1
New Auto Registration	32,705	24,585	33.0	34,225	-4.4	1,389,185	1,343,751	3.4	1,436,443	-3.3
New Residential Permits Authorized	2,132	1,675	27.3	2,649	-19.5	143,525	124,159	15.6	139,592	2.8
<b>Indexes</b>										
Leading Index	97.9	98.1	-0.2	103.1	-5.1	110.5	110.7	-0.2	111.0	-0.5
Help-Wanted Index	62.0	52.4	18.4	74.9	-17.2	38	40	-5.0	45	-15.6
CPI	115.9	N/A	N/A	111.9	3.6	184.2	183.1	0.6	178.8	3.0
Stock Index	184.7	175.4	5.3	225.8	-18.2	848.2	841.2	0.8	1,147.4	-26.1
<b>Tourism</b>										
Hotel/ Motel Occupancy Rate (%)	59.6	52.3	14.0	60.4	-1.3					
State Welcome Center Visitors	132,014	84,346	56.5	157,669	-16.3					
Amusement & Admission Tax (Millions of Dollars)	5.05	3.51	43.6	6.72	-24.9					
Hotel/Motel Sales Tax (Millions of Dollars)	2.60	2.45	6.5	3.07	-15.2					

Notes:

<sup>1</sup> Data for the U.S. by NAICS sector are not available at this time.



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